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SUBJECT: Taiwan's Best Leaving While Salaries Stagnate

Summary

1. (SBU) Summary. Over the past seven years Taiwan salaries have barely kept up with inflation, rising only 1.5% in real terms. According to one local human resources consultant, Taiwan compensation packages are now cheaper than those of many countries in the region - and in the case of management and executive staff, even cheaper than those in China. Although this may bode well for Taiwan's competitiveness, many of Taiwan's best are still looking overseas for employment, and more and more Taiwan professionals find themselves working for Chinese bosses. End summary.

Salaries in Taiwan Basically Flat

2. (U) Over the past seven years, Taiwan salaries have barely kept pace with inflation. According to official statistics, in the period from 2000 through 2007, average Taiwan salaries increased only 1.53% after inflation. This does not represent an average annualized number, but the entire cumulative increase over a seven-year period. Without adjusting for inflation, average salaries increased by 7.57%. The number clearly masks variations between business sectors. Those in the real estate industry, for example, did even worse, with average pay falling 12.9% before taking inflation into account. Salaries in the financial sector, on the other hand, saw the greatest increases, rising 24.9% before adjusting for inflation. Taiwan's average monthly wage, which includes employees across all sectors and measures salary, prorated bonuses and overtime payments, stood at NT\$45,112 (or about US\$1480) in 2007.

3. (U) Taiwan's stagnating salaries contrast with its respectable economic growth rates during the same period. Excluding 2001, when Taiwan's real GDP dropped 2.2%, real GDP growth ranged from 3.5 to 6.2% per year. During the period from 2000 to 2007, productivity,

in real terms rose on average 3% per year in the service sector and just over 4% in the industrial sector, according to official statistics.

Vastly More College Grads in Workforce

14. (U) As salaries in general have stagnated, the number of college graduates in the Taiwan workforce has risen significantly. The percentage of the workforce with a four-year college degree or higher level of education nearly doubled from 11.8% in 2000 to 22% by the end of 2007. According to official figures, last year, Taiwan's four-year colleges and universities produced more than 280,000 graduates, triple the number graduating in 1997. Perhaps because of the dramatic increase in numbers, entry-level salaries for college grads have actually fallen in recent years. The average starting base salary, excluding bonuses, overtime and variable payments, for new college grads dropped 2.8% from 1999 to NT\$26,700 (about US\$880) in 2006, the most recent data available. Those with advanced degrees do slightly better, with an average starting salary of NT\$31,567 (about US\$1040).

HR Consultant Reality Check

15. (SBU) A Taipei-based consultant with a multinational human resources consulting firm confirmed that Taiwan salaries, especially for new hires, had not budged for years. She stated that bank management trainee starting salaries in Taipei, for example, have not risen in about ten years and are low in absolute terms - about NT\$45,000 per month, or less than US\$1500. Separately, human resource consultants at a local Taiwan firm told AIT that salary news will continue to be bleak this year. According to their own Taiwan salary survey, one third of Taiwan companies do not plan to increase salaries in 2008. Another 44% said they will not grant across-the-board increases, but would selectively adjust compensation based on performance of individual employees. The salary outlook, they said, was most positive for sales, R&D, and management personnel, and most bleak for manufacturing, administrative and back office staff.

16. (SBU) The multinational consultant pointed out that the jump in college graduates has come mainly from expanding the rolls at private schools, many of which had been converted from technical schools, but have yet to establish academic bona fides, and, in what she described as a commonly-held view, have largely debased the value of a local college education. Multinational and other top Taiwan firms target graduates from Taiwan's top four universities only, she said. Some will also consider top students from second tier public universities, but graduates of private colleges, which do not typically have strong academic reputations, are not normally sought after by employers.

17. (SBU) She also noted that Taiwan's stagnant salary levels also mean that staff in Taiwan has become relatively cheap for her multinational clients compared to other locations in the region. Taiwan salaries are already lower than in Japan, Korea and Hong Kong, for example. Taiwan is even cheaper than Mainland China for executive and management talent, she said. At current salary rates for talent recruited by multinational firms, Taiwan is on par with Singapore, but Singapore salaries, she noted, are beginning to surpass those in Taiwan due to increasing competition for staff there. According to the local consultants, however, Taiwan entry-level employees still typically earn two to three times their China counterparts.

18. (SBU) Not all of Taiwan's employees are doing badly, however. According to surveys of multinational employers, executive and management pay increases have been rising faster than that for general staff, which follows worldwide trends. This year, for example, one survey indicates firms are planning to grant salary increases to executives and management ranging from 6-8%, while general staff can expect raises of between 4-5%. Firms are also moving more to increased amounts of variable pay based on some sort of performance indicator. These arrangements are customarily provided for management and executive-level employees and allow for significant increases in compensation.

If Only I Worked in High-tech

¶9. (SBU) Taiwan's high-tech companies, particularly integrated circuit design firms and semiconductor, PC, and TFT/LCD manufacturers have, in addition to providing basic cash compensation packages, also make sizable stock grants to virtually all employees. These grants are typically based on a firm's overall performance. These grants have been particularly attractive because they did not need to be reported as expense on a firm's balance sheet and were attractive to employees because shares were taxed at par value, which is typically well below the actual market value of the security. This year, however, new regulations took effect that require firms to expense stock grants and also phase out the tax benefit for the grantee. It is not yet clear how firms will react to this change, but these firms are still expected to continue to provide substantial variable compensation to their employees in some form. One reason is that there is still a shortage of qualified engineers and other technical staff. Turnover, according to survey data from a local human resources consultant, is very high, with about 35% of high-tech sector employees actively considering changing jobs.

Brain Drain and Mainland Bosses

¶10. (SBU) The multinational HR consultant also noted that if Taiwan employees wanted to be promoted into roles with regional responsibility, it is very likely they would have to relocate elsewhere in the region, typically to Singapore, Hong Kong, or somewhere in China, because, as she put it, very few regional offices were based in Taiwan. In addition, she said, Taiwan employees are more likely to be working for Mainland China counterparts as part of a "Greater China" operation. The good news, however, is that Taiwan employees are seen as competitive in these regional positions. She also stated that Taiwan firms, particularly construction firms, are expanding their operations in the region and are willing to allow Taiwan staff with regional and/or China responsibilities to be based out of Taipei. She expected that this practice would become more common if staff have access to regular direct cross-Strait flights in the future.

¶11. (SBU) Local HR consultants told AIT that many of Taiwan's best and brightest are leaving Taiwan, typically for China, where opportunities and responsibilities are greater. One described the situation as "a serious brain drain." The head of a large foreign bank called it "the thinning of the local talent pool." Both said best applicants, he said, do not usually remain in Taiwan. Taiwan firms, in particular, like to hire Taiwan staff for positions of trust in Mainland China, but the consultants point out that as China's own talent pool develops there may be less opportunity there for Taiwan employees, especially those without relevant experience or highly sought after skills.

COMMENT

¶10. (SBU) It is worrying that salaries have stagnated at the same time as the number of college degree-holders in the workforce has doubled. It is no surprise that many of Taiwan's best and brightest are seeking opportunities overseas or enrolling in advanced degree programs. On the positive side, Taiwan's relatively cheaper labor costs, especially for management and professional staff, may lead to more firms placing activities here or at least not moving them out. Having access to direct flights to China will be another important factor. In the meantime, and probably for the foreseeable future, ambitious Taiwan professionals aspiring to regional responsibilities will be moving off island and are increasingly likely to have Mainland Chinese bosses.

WANG